

Message Text

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ORIGIN XMB-04

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R 301550Z AUG 76

FM SECSTATE WASHDC

TO AMEMBASSY LUSAKA

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E.O. 11652 N/A

TAGS: EGEN-ZA

SUBJECT: EXIMBANK CREDIT NO. 5894 AND GUARANTEE NO. 5895

1. SUBJECT EXIMBANK CREDIT AND GUARANTEE ON PEFECO CREDIT A
AUTHORIZED 4/2/75 IN FAVOR GRZ FOR \$1,701,000 EACH TO FINANCE
60 PERCENT U.S. COSTS OF TEN GENERAL ELECTRIC LOCOMOTIVES.
GRZ TO PROVIDE 40 PERCENT CASH PAYMENT OR \$2,268,000.
LOCOMOTIVES DELIVERED IN MED-1975 ON BASIS 100 PERCENT GRZ CASH
PAYMENT. FINANCING ORIGINALLY TO BE REPAID IN 20 SEMIANUAL IN-
STALLMENTS BEGINNING 11/5/75, BUT REVISED TO 19 INSTALLMENTS
BEGINNING 5/5/76 ON 12/23/75 WHEN IT BECAME
APPARENT EXTENDED DELAY DEVELOPING IN CONCLUDING DOCUMENTATION.
THIS DELAY LARGELY CAUSED BY GRZ UNWILLINGNESS TO ACCEPT WAIVER
OF SOVEREIGN IMMUNITY CLAUSE IN COMMERCIAL BANK CREDIT WHICH
RESULTED IN ELIMINATION THAT 30 PERCENT CREDIT AND INCREASE
IN CASH PAYMENT FROM 10 PERCENT TO 40 PERCENT.

2. ALTHOUGH EXIMBANK/PEFECO/GRZ CREDIT AGREEMENT FINALLY SIGNED
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4/30/76, ONLY DOCUMENT REPRESENTING CONDITIONS PRECEDENT TO

DISBURSEMENT YET RECEIVED IS LEGAL OPINION WHICH EXIMBANK CONSIDERS UNSATISFACTORY. IF GRZ SERIOUS ABOUT DRAWING SUBJECT FINANCING EXIMBANK BOARD AGAIN BE REQUIRED TO CONSIDER EXTENSION 5/1/75 AVAILABILITY DATE OF CREDIT AND FURTHER REDUCTION IN NUMBER OF INSTALLMENTS. BANK, HOWEVER, WILL ALSO REVIEW BASIC JUSTIFICATION FOR CREDIT AND MIGHT DECIDE TO WITHDRAW IT OR TO STIPULATE INCREASES IN 8 PERCENT INTEREST RATE AND 1 PERCENT GUARANTEE FEE

3. FYI: IN VIEW OF CONTINUAL DELAY IN CONCLUDING THIS MODERATE SIZED TRANSACTION, EXIMBANK WOULD PREFER TO CANCEL CREDIT AND GUARANTEE. BANK HAS BEEN INFORMED THAT GRZ ATTEMPTING TO REFINANCE CASE IN PRIVATE MARKET. WHICH SUGGESTS THAT IT TOO MIGHT BE JUST AS HAPPY TO TERMINATE EXIMBANK CONNECTION, PERHAPS BECAUSE OF HIGH DOWN PAYMENT REQUIRED UNDER EXIMBANK TERMS. END FY1

4. DEPARTMENT BELIEVES DEVELOPMENT OF SOUND EXIMBANK FINANCIAL RELATIONS WOULD BE HELPFUL TO OUR SOUTH AFRICAN POLICY OBJECTIVES AND CURRENT EFFORTS TO ENCOURAGE INCREASED FLOW OF PUBLIC AND PRIVATE FUNDS TO PROMOTE GROWTH AND STABILITY IN ZAMBIA. WE WOULD APPRECIATE EMBASSY DISCUSSING PRESENT SITUATION (PARA 1-3) WITH GRZ AND ATTEMPTING TO LEARN WHETHER GRZ WISHES TO PURSUE THIS EXIM CREDIT FURTHER. WE WOULD NOT LIKE EITHER TO PRESS GRZ TO DROP CASE ON BASIS OF EXIM PREFERENCE (PARA 3) OR TO SEEM OVERAGER TO CARRY ON WITH IT FOR SAME REASON.

5. REGARDLESS OF OUTCOME, DOES EMBASSY BELIEVE THAT IT WOULD BE USEFUL POLITELY TO TELL GRZ OF OUR CONCERN THAT WAY CASE HAS BEEN HANDLED BY GRZ AS NOT A HELPFUL COMPLEMENT TO OUR EFFORTS TO PROVIDE ASSISTANCE TO GRZ THROUGH OTHER CHANNELS? KISSINGER

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